



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 12, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **EL NIDO FAMILY CENTERS CONTRACT REVIEW – A DEPARTMENT
OF PUBLIC SOCIAL SERVICES CAL-LEARN PROGRAM PROVIDER**

We have completed a program, fiscal and administrative contract review of El Nido Family Centers (El Nido or Agency), a Department of Public Social Services (DPSS) Cal-Learn Program (Cal-Learn or Program) provider.

Background

DPSS contracts with El Nido, a non-profit community-based organization, to assist teenage parent CalWORKs participants in completing their high school education. The contract services include recruiting and enrolling eligible participants, conducting Program orientations, handling case management, identifying and providing supportive services (i.e., child care, transportation, etc.) and assisting participants with enrolling and completing a high school education. The Agency provided services to residents in the Second, Third, and Fifth Supervisorial Districts during Fiscal Year (FY) 2008-09.

DPSS paid El Nido a fixed monthly fee for each participant or approximately \$3.7 million during FY 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether El Nido complied with the contract terms and appropriately accounted for and spent Cal-Learn funds in providing the

services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

Results of Review

The program participants met the eligibility requirements for the Cal-Learn Program and El Nido met their planned performance outcomes. In addition, the Agency's staff possessed the required qualifications. However, El Nido did not always comply with other contract requirements. Specifically, El Nido:

- Did not always close participant case files timely.
- Did not ensure management reviewed and approved all bank reconciliations.
- Inappropriately used estimates rather than the actual hours employees worked on the Program to allocate payroll and other expenses to the program.

In addition, the County contract does not include provisions requiring the Agency to return or reinvest unspent revenues. El Nido received \$3,314,829 from DPSS for the Program during FY 2007-08. However, the Agency's expenditures totaled \$2,662,115, which is \$652,714 (\$3,314,829 - \$2,662,115) in unspent Program funds that the contract allowed the Agency to retain. In their response (Attachment II), DPSS indicated that they intend to work with County Counsel to amend the contract language to include provisions requiring agencies to return or reinvest unspent program funds.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with El Nido and DPSS in February 2010. El Nido's response (Attachment I) and DPSS' response (Attachment II) indicate agreement with our findings and recommendations. DPSS also indicated that they intend to work with County Counsel to amend the Cal-Learn Program contracts to include the unspent revenue provision effective September 1, 2010, the start of the second contract year. In addition, in January 2010, DPSS sent a letter to the California Department of Social Services (CDSS) requesting approval to include an unspent revenues provision in the affected contracts, as required by CDSS.

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We thank El Nido management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Stuart Berton, President, Board of Directors, El Nido Family Centers
Liz Herrera, Executive Director, El Nido Family Centers
Public Information Office
Audit Committee

**CAL-LEARN PROGRAM
EL NIDO FAMILY CENTERS
FISCAL YEAR 2008-09**

ELIGIBILITY

Objective

Determine whether El Nido Family Centers (El Nido or Agency) provided services to individuals that met the eligibility requirements of the Cal-Learn Program.

Verification

We reviewed the case files for 20 (1%) of the 2,994 program participants that received services during January and February 2009.

Results

All 20 participants met the eligibility requirements for Cal-Learn services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether El Nido provided the services in accordance with the County contract and Cal-Learn guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the case file documentation for 20 participants that received services during January and February 2009. We also interviewed six participants.

Results

El Nido generally provided program services in accordance with the County contract. However, two (10%) of the 20 case files reviewed were not closed within five business days to prevent overpayments to the contractor for ineligible participants as required. The two case files were closed four and 13 business days late, respectively.

Recommendation

1. El Nido management close participant case files timely.

STAFFING QUALIFICATIONS

Objective

Determine whether El Nido staff possessed the qualifications required by the County contract.

Verification

We reviewed the personnel files for eight (12%) of the 66 El Nido employees assigned to the Cal-Learn Program.

Results

El Nido's staff possessed the qualifications required by the County contract.

Recommendation

None.

PERFORMANCE OUTCOMES

Objective

Determine whether El Nido met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to the Department of Public Social Services (DPSS). The performance outcomes included maintaining a 70% orientation completion rate, a 60% school enrollment rate, a 50% report card submission rate and a 50% high school graduation rate.

Verification

We reviewed participant case files and the GAIN Employment Activity and Reporting System, an automated data management system that tracks each participant's progress in the program.

Results

El Nido met the performance outcome measures outlined in the County contract.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in El Nido's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed El Nido personnel and reviewed financial records including the Agency's bank reconciliations for February 2009.

Results

El Nido properly recorded revenue. However, Agency management did not approve two (50%) of the four bank reconciliations reviewed.

Recommendation

2. El Nido management review and approve all bank reconciliations.

UNSPENT REVENUE

California Department of Social Services (CDSS) policy requires DPSS to use a fixed fee method when contracting for services involving State funds unless DPSS obtains CDSS approval to use a different method. The Cal-Learn Program is funded by the State. DPSS compensates El Nido at a fixed monthly fee for each participant. However, El Nido's Cal-Learn contract with the County does not include provisions requiring the Agency to return or reinvest unspent Program funds. El Nido received \$3,314,829 from DPSS for the Cal-Learn Program during Fiscal Year (FY) 2007-08. However, the Agency's expenditures totaled \$2,662,115, which is \$652,714 (\$3,314,829 - \$2,662,115) in unspent Program funds that the contract allowed the Agency to retain.

On September 1, 2009, DPSS amended their Cal-Learn contracts to allow the County to disallow costs that are inappropriately charged to the program. However, the contracts were not amended to require agencies to reinvest unspent revenues. To ensure Cal-Learn funds are used for their intended purpose, DPSS needs to work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues. DPSS should also obtain any necessary CDSS approval to amend the contracts.

Recommendations**DPSS management:**

3. Work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues.
4. Obtain any necessary CDSS approval to amend the contracts.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures were allowable under the County contract and properly documented.

Verification

We interviewed El Nido personnel and reviewed financial records and other documentation for eight non-payroll expenditures totaling \$32,884 that the Agency charged during February 2009.

Results

El Nido's expenditures were allowable and properly documented.

Recommendation

None.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether El Nido maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed El Nido personnel, reviewed their policies and procedures manuals and conducted on-site visits.

Results

El Nido maintained sufficient internal controls over its business operations and complied with other program and administrative requirements.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether El Nido's fixed assets and equipment purchased with Cal-Learn funds were used for the Cal-Learn Program and were safeguarded.

We did not perform testwork in this section as El Nido did not use Cal-Learn funds to purchase fixed assets or equipment.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the Cal-Learn Program. In addition, determine whether El Nido obtained background clearances and verified employment eligibility for the employees assigned to the Cal-Learn Program.

Verification

We traced the payroll expenditures for eight employees totaling \$12,321 for February 2009 to the Agency's payroll records and time reports. We also interviewed staff and reviewed eight personnel files for staff assigned to the Cal-Learn Program.

Results

El Nido appropriately charged payroll expenditures for five employees that solely worked on the Cal-Learn Program. However, the Agency inappropriately allocated payroll costs to the Cal-Learn Program for three employees that worked on County and non-County programs. Specifically, El Nido allocated the employees' costs based on time estimates rather than based on the actual hours employees spent working on the Cal-Learn Program as required.

As indicated above, although DPSS recently included provisions for disallowed costs in the new Cal-Learn contract, additional terms requiring agencies to return or reinvest unspent revenues are necessary to recover the disallowed costs.

Recommendation

- 5. El Nido management allocate payroll expenses based on the actual time spent working on the Cal-Learn Program.**

COST ALLOCATION PLAN**Objective**

Determine whether El Nido's Cost Allocation Plan was prepared in compliance with the County contract and if the Agency used the Plan to appropriately allocate shared program costs.

Verification

We reviewed the Cost Allocation Plan and a sample of expenditures El Nido incurred during February 2009.

Results

El Nido's Cost Allocation Plan was prepared in compliance with the County contract. However, the Agency used time estimates rather than actual payroll costs to develop their allocation rates. As a result, El Nido used unsupported rates to allocate overhead and other program costs.

Recommendation

- 6. El Nido management use actual payroll costs when developing rates for allocating overhead and other costs.**

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the Auditor-Controller's prior monitoring review.

Verification

We verified whether the outstanding recommendations from the FY 2004-05 monitoring report issued on September 20, 2005 were implemented.

Results

El Nido implemented the two recommendations contained in the prior monitoring report.

Recommendation

None.



EL NIDO FAMILY CENTERS

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Counseling, Education and Service Coordination for Children and Families A United Way Agency

February 16, 2010

Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

RE: Response to Audit of Cal-Learn Program, Fiscal Year 2008-09

PROGRAM SERVICES

“... two (10%) of the 20 case files reviewed were not closed within five workdays ...”

Response: Program and accounting procedures have been reviewed to ensure that these instances do not reoccur. Procedures are in place to ensure the timely closing of all Cal-Learn cases.

CASH/REVENUE

“... El Nido properly recorded revenue. However, Agency management did not sign two (50%) of the four bank reconciliations reviewed.”

Response: This oversight apparently resulted from overlapping staff vacations. EL Nido will implement a checklist to ensure that all bank reconciliations are reviewed and initialed in the future.

PAYROLL AND PERSONNEL

“... the Agency inappropriately allocated costs to the Cal-Learn program for three employees that worked County and non-County programs. Specifically, El Nido allocated the employees' time based on estimates rather than based on the actual hours employees spent working on the Cal-Learn program ...”

Response: Although we believe that the time estimates charged to Cal-Learn for the three employees were reasonable (and possibly understated), we will endeavor to capture the actual time spent on Cal-Learn vs non-Cal-Learn activities. In some circumstances, estimates are a more efficient use of time, since staff can devote more time to program activities rather than to administrative tasks.

COST ALLOCATION PLAN

“El Nido’s CAP was prepared in compliance with the County contract. However, the Agency used time estimates rather than actual payroll costs to develop their allocation rates.”

Response: As in our previous response, we will review and revise our procedures as necessary to fully comply with the auditor’s recommendation.



Jack Lebovits
Director Finance

Cc: L. Herrera
L. Alund
D. Harris
M. Nguyen
H. Nguyen

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Fifth District

February 22, 2010

TO: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in black ink, appearing to be 'P. Browning', written over the 'FROM' line.

FROM: Philip L. Browning, Director

**SUBJECT: EL NIDO FAMILY CENTERS CONTRACT REVIEW – A DEPARTMENT OF
PUBLIC SOCIAL SERVICES CAL-LEARN PROGRAM PROVIDER**

This is to provide you with our response to the Auditor-Controller's (A-C) recommendations based on the A-C's review of the subject contract for Fiscal Year 2008-09.

Recommendations

- 1) Work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues.
- 2) Obtain California Department of Social Services (CDSS) approval to amend the contracts, if necessary.

Response

We agree with these recommendations and will work with County Counsel to implement them. We intend to amend the Cal-Learn Case Management contracts to include the unspent revenues provision effective September 1, 2010, the start of the second contract year.

Also, on January 28, 2010, we sent a letter to CDSS requesting approval to include an unspent revenues provision in all of the Department's fixed-fee contracts with private, non-profit agencies. CDSS Regulation 23-604.3.374 requires the firm-fixed price method of reimbursement for agreements with non-public/non-governmental agencies.

Please let me know if you have any questions.

PLB:ab